



COMPLIANCE AND CONTROL AUDIT REPORT

Correctional Facilities

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
December 2001**

Legislative Post Audit Committee

Legislative Division of Post Audit

The Legislative Post Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$9 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of government agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U. S. General Accounting Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. These audit standards have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the representatives, three are appointed by the Speaker of the House and two are appointed by the House Minority Leader.

As part of its audit responsibilities, the Division is charged with meeting the requirements of the Legislative Post Audit Act which address audits of financial matters. Those requirements call for two major types of audit work.

First, the Act requires an annual audit of the State's financial statements. Those statements, prepared by the Department of Administration's Division of Accounts and Reports, are audited by a certified public accounting firm under contract with the Legislative Division of Post Audit. The firm is selected by the Contract Audit Committee, which comprises three

members of the Legislative Post Audit Committee (including the Chairman and Vice-Chairman), the Secretary of Administration, and the Legislative Post Auditor. This audit work also meets the State's audit responsibilities under the federal Single Audit Act.

Second, the Act provides for a regular audit presence in every State agency by requiring that audit work be conducted at each agency at least once every three years. Audit work done in addition to the annual financial statement audit focuses on compliance with legal and procedural requirements and on the adequacy of the audited agency's internal control procedures. These compliance and control audits are conducted by the Division's staff under the direction of the Legislative Post Audit Committee.

LEGISLATIVE POST AUDIT COMMITTEE

Representative Lisa Benlon, Chair
Representative Richard Alldritt
Representative John Ballou
Representative Dean Newton
Representative Dan Thimesch

Senator Lynn Jenkins, Vice-Chair
Senator Anthony Hensley
Senator Dave Kerr
Senator Derek Schmidt
Senator Chris Steineger

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Barbara J. Hinton, Legislative Post Auditor

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November 27, 2001

To: Members, Legislative Post Audit Committee

Representative Lisa Benlon, Chair
Representative Richard Alldritt
Representative John Ballou
Representative Dean Newton
Representative Dan Thimesch

Senator Lynn Jenkins, Vice-Chair
Senator Anthony Hensley
Senator Dave Kerr
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Senator Chris Steineger

This report contains the findings, conclusions, and recommendations from our completed compliance and control audit of the *Correctional Facilities*. We would be happy to discuss the findings presented in this report with any legislative committees, individual legislators, or other State officials.

A handwritten signature in black ink, reading "Barbara J. Hinton". The signature is written in a cursive, flowing style. The first name "Barbara" is written in a larger, more prominent script, and the last name "Hinton" follows in a similar but slightly smaller script. The initials "J." are written in a smaller, more compact script between the first and last names.

Barbara J. Hinton
Legislative Post Auditor

EXECUTIVE SUMMARY

LEGISLATIVE DIVISION OF POST AUDIT

Question 1: Have The Correctional Facilities Used Their Locally Administered Moneys Appropriately and In Accordance with Applicable Requirements?

The correctional facilities used their locally administered moneys appropriately and in accordance with applicable requirements, but some improvements are needed in procedures. page 3
Written procedures at the facilities generally don't provide enough detail about how locally administered fund transactions are to be handled. In addition, authorization for payments from locally administered funds wasn't always documented, and supporting documentation wasn't always maintained. Finally, bank reconciliations weren't done or reviewed by a staff member other than the fund custodian, and those reconciliations weren't always done on a timely basis.

Question 1 Recommendation page 6

Question 2: Did the Correctional Facilities Pay Their Vendors In a Timely Manner?

Together, the correctional facilities made about 92% of their payments to vendors in a timely manner. page 7
To test compliance with the Kansas Prompt Payment Act, we looked at a sample of 50 payments to vendors for each of the 10 correctional facilities. Compliance rates ranged from 86% to 100% at the individual facilities. Overall, only 41 payments were late, and 27 of those were made within about 3 weeks of the due date. For our sample of payments, the facilities didn't have to pay any late fees or finance charges.

APPENDIX A: Agency Response page 9

This audit was conducted by Steve Ballantyne, Rodney Ferguson, Lisa Hoopes, and Carol Porter. Randy Tongier was the audit manager. If you need any additional information about the audit's findings, please contact Mr. Tongier at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at LPA@lpa.state.ks.us.

The Correctional Facilities

The Legislative Division of Post Audit has conducted compliance and control audit work at the State Correctional Facilities located in El Dorado, Ellsworth, Hutchinson, Lansing, Larned, Norton, Topeka, and Winfield. Compliance and control audits can identify noncompliance with applicable requirements and poor financial-management practices. The resulting audit findings often identify needed improvements that can help minimize the risk of potential future loss or misuse of State resources.

At the direction of the Legislative Post Audit Committee, this audit focused on the use of locally administered moneys held by the Correctional Facilities, and on whether the facilities make timely payments to vendors. The audit addresses the following specific questions:

- 1. Have the correctional facilities used their locally administered moneys appropriately and in accordance with applicable requirements?**
- 2. Did the correctional facilities pay their vendors in a timely manner?**

To answer these questions, we reviewed applicable provisions of State law, interviewed officials at the correctional facilities, reviewed and evaluated facility procedures, and reviewed a sample of facility files and records. This audit work covers fiscal year 2000.

In conducting this audit, we followed all applicable government auditing standards.

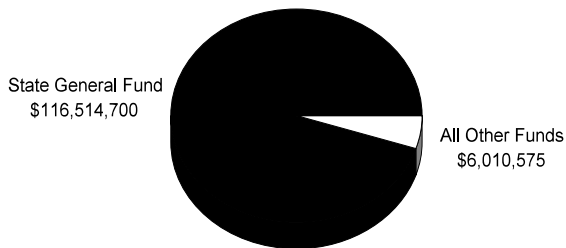
Correctional Facilities AT A GLANCE

Authority: Provided for by Article 75, Chapter 52 of the Kansas Statutes Annotated.

Staffing: The facilities have 2,537.5 full-time-equivalent positions.

Budget: The facilities' funding comes mainly from the State General Fund. For the most recent year, the facilities spent about \$122.5 million, as shown below.

FY 2000 Funding Sources



Total Funding: \$ 122,525,265

FY 2000 Expenditures

| Type | Amount | % of Total |
|----------------------|---------------|------------|
| Salaries/Wages | \$ 97,405,285 | 80 % |
| Contractual Services | 10,247,469 | 8 % |
| Commodities | 8,932,123 | 7 % |
| Capital Expenditures | 5,924,288 | 5 % |
| Other | 16,100 | 0 % |

Total Expenses: \$ 122,525,265 100%

Source: Governor's Budget Report, Fiscal Year 2002

Question 1: Have the Correctional Facilities Used Their Locally Administered Moneys Appropriately and in Accordance With Applicable Requirements?

The correctional facilities used their locally administered moneys appropriately and in accordance with applicable requirements. However, for some funds at certain facilities, there's an increased risk that inappropriate transactions could occur and go undetected. That increased risk arises because in some cases written guidance isn't detailed enough, authorization for payments isn't documented, supporting documentation for payments isn't maintained, bank reconciliations aren't done on a timely basis, and bank reconciliations are done by the fund custodian without independent review. These and other findings are discussed in the sections that follow.

The Correctional Facilities Used Their Locally Administered Moneys Appropriately and in Accordance with Applicable Requirements, But Some Improvements Are Needed in Procedures

The State's correctional facilities are responsible for several different kinds of locally administered funds. A brief description of the funds covered by this audit follows:

- Canteen Fund—A canteen at each facility sells items such as snacks and personal care items to inmates. Canteen Fund moneys are used to pay for inventory and any operating costs. A portion of the canteen's profits may be transferred to a facility's Benefit Fund.
- Employee Use Fund—Moneys may be used to pay for employee activities and benefits, such as flowers, cards, recognition awards, and appreciation events. (Fund-raising events are one source of moneys for this type of fund.)
- Imprest Fund—Moneys held locally and used for items that need immediate payment and can't wait for processing of a State warrant. The imprest fund then is reimbursed periodically from the facility's regular funds.
- Benefit Fund—Moneys used to pay the cost of activities or purchases for the inmates' entertainment or welfare. (One source of these moneys is Canteen Fund profits.)
- Trust Fund—Moneys held by the facility for its inmates. These moneys may be used by the inmates to make purchases, including items from the canteen.

Payments made from locally administered funds were for appropriate purposes. State law and guidance from the Division of Accounts and Reports specify the allowable uses of moneys in each of the locally administered funds.

To determine if the facilities used the moneys in their locally administered funds appropriately, we reviewed samples of expenditure transactions at each facility—about 700 payments altogether. In every case we reviewed, the expenditure was an appropriate use of fund moneys. The number of payments we reviewed for each type of locally administered fund was as follows:

| | |
|-------------------|-----|
| Canteen Fund | 165 |
| Employee Use Fund | 59 |
| Imprest Fund | 136 |
| Benefit Fund | 133 |
| Trust Fund | 206 |
| TOTAL | 699 |

Facility procedures for locally administered funds generally were appropriate, but some strengthening is needed. The facilities are responsible for developing procedures to ensure that locally administered moneys are used appropriately and that those procedures are followed. State law and guidance from the Division of Accounts and Reports also specify certain procedures to be used by State agencies for their locally administered funds. Basic procedures to help ensure that moneys are properly used include the following:

- Designate an individual to be responsible for each of the funds
- Require authorization for payments from the funds
- Obtain and maintain supporting documentation for payments from the funds
- Reconcile fund records with bank statements on a monthly basis
- Either have a staff member other than the fund's custodian do the monthly bank reconciliation, or have an independent staff member review the reconciliation prepared by the fund's custodian
- Adopt specific procedures for each fund at each facility, and document and communicate those procedures
- Prepare periodic financial reports for management review

To identify and evaluate the procedures used by each facility, we interviewed appropriate facility officials, reviewed written

procedures, examined financial reports, reviewed bank reconciliations, and tested a sample of expenditure transactions. In general, the facilities had appropriate and required practices in place. The exceptions we noted are summarized below:

- ***Written procedures at the facilities generally don't provide enough detail about how locally administered fund transactions are to be handled.*** Instead, the facilities' business offices tend to rely on the Policy and Procedures Manual of the Division of Accounts and Reports and the more general directives of the Department of Corrections and individual facility administration. Those directives often don't provide sufficient guidance about appropriate day-to-day activities specific to an individual facility. Without more specific guidance, the risk of transactions not being appropriately handled, recorded, and reported is increased. This is particularly important when a new fund custodian is appointed, or when other staff have to handle transactions while the regular custodian is absent. This finding was noted at Ellsworth, Hutchinson, Larned, Stockton (part of the Norton Facility), Topeka, Winfield, and Wichita (part of the Winfield Facility).
- ***Authorization for payments from locally administered funds wasn't always documented.*** Without documented authorization, it's not clear that appropriate authorization has been obtained for payments, increasing the risk that inappropriate payments might be made. This finding was noted for some funds at the Lansing, Larned, Norton (including Stockton), and Winfield (including Wichita) Facilities.

A system-wide risk in this area is that payments from the Imprest and Trust Funds for an inmate leaving an institution may be inappropriately made. The supporting document for that type of payment is a card prepared by non-Business Office staff. The current version of the card doesn't include a place for a signature authorizing "dress-out" payments.

- ***Supporting documentation for some payments wasn't maintained.*** Obtaining and maintaining supporting documentation for payments from locally administered funds allows for adequate review before payments are made, helping reduce the risk of inappropriate payments. This finding was noted mainly at the Winfield Correctional Facility.

- ***Bank reconciliations weren't done or reviewed by a staff member other than the fund custodian.*** Having the bank reconciliation done or at a minimum independently reviewed by someone other than the custodian can help identify and correct inappropriate transactions. The practice serves both as a deterrent and as a check for inappropriate payments. This finding was noted for some funds at the Hutchinson, Topeka, and Winfield (including Wichita) Facilities.
- ***Bank reconciliations weren't always done on a timely basis.*** In general, bank reconciliations should be done for each month and completed within a month of the end of the period reconciled. At some facilities, reconciliations were completed as much as 4 months after the period covered. Generally, staff turnover and related vacancies were the contributing factors. Timely reconciliations allow for identification of errors or inappropriate transactions soon enough to be more easily corrected, and help ensure accurate cash records on an ongoing basis. This finding was noted for some funds at the Hutchinson, Larned, and Topeka Facilities. (The Larned Facility had corrected this problem by the time of our field work.)

Recommendation

To reduce the risk of inappropriate use of locally administered moneys, the Department of Corrections should work with the individual correctional facilities to ensure that:

- a. the correctional facilities have specific written procedures to provide guidance for handling their transactions.
- b. authorization for payments from locally administered moneys is obtained and documented.
- c. supporting documentation for payments is obtained and maintained. This includes resident staff authorization for preparation of payments to inmates leaving the facilities.
- d. bank reconciliations are done by, or reviewed by, someone other than the fund custodian.
- e. bank reconciliations are done on a timely basis.

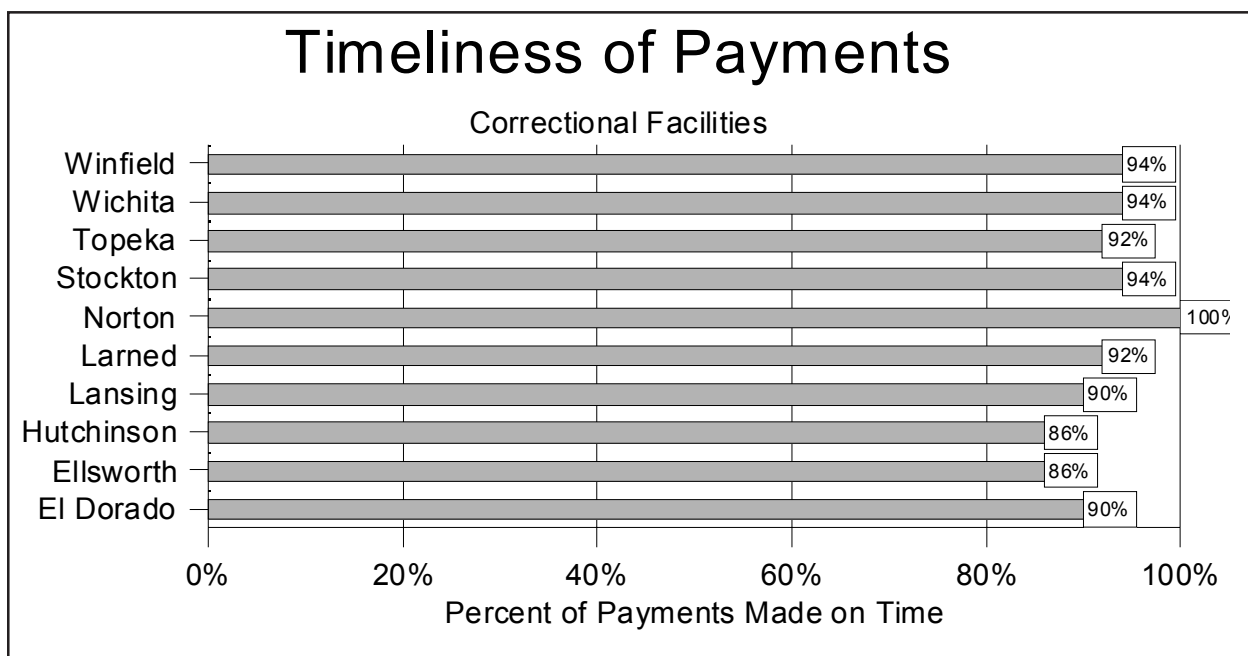
Question 2: Did the Correctional Facilities Pay Their Vendors in a Timely Manner?

The correctional facilities generally paid their vendors in a timely manner. Of the 41 payments we reviewed that were made late, most were made within 3 weeks after the due date. In some cases, a billing question or problem contributed to the lateness. None of the facilities incurred additional finance charges or late fees as a result of any late payments. The basis for these findings is summarized below.

Together, the Correctional Facilities Made About 92% of Their Payments to Vendors in a Timely Manner

The Kansas Prompt Payment Act (K.S.A. 75-4603) requires State agencies to pay bills within 30 days of receiving the goods or services or 30 days after the invoice is received, whichever is later. To see if the correctional facilities complied with this requirement, we reviewed a total of 50 payments from each facility—500 altogether.

For our samples, frequency of timely payments ranged from 86% at the Hutchinson and Ellsworth Facilities to 100% at the Norton Facility. Figures for each location are shown in the graphic below. Of 41 late payments we identified, 27 (66%) were made within 3 weeks of the due date; 4 payments took longer than 3 months after the due date to complete. Supporting documentation showed that in some cases a billing question or problem contributed to the lateness.



When payments aren't made in a timely manner, vendors sometimes add a finance charge or late fee to the amount due. In

extreme cases, vendors may ask for prepayments, or may even refuse to do business with chronic late payers. On the other hand, if a payment is made quickly, some vendors offer a reduction in the amount due (a discount). For the payments we reviewed, no additional finance charges or late fees were incurred.

APPENDIX A

Agency Response

On September 26, 2001, we provided copies of the draft audit report to the Department of Corrections and the correctional facilities.

The Department's response on behalf of the correctional facilities is included as this Appendix.

STATE OF KANSAS



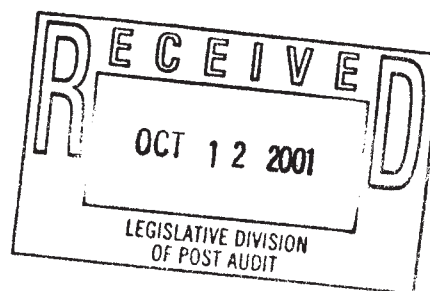
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Bill Graves
Governor

Charles E. Simmons
Secretary

October 12, 2001

Ms. Barbara Hinton
Legislative Post Auditor
Legislative Division of Post Audit
800 S.W. Jackson, Suite 1200
Topeka, Kansas 66612-2212



Dear Ms. Hinton:

Thank you for the opportunity to review the draft report on the compliance and control audit of locally administered funds maintained by the correctional facilities. We appreciate the constructive nature of the audit and recommendations. Our responses to the findings and recommendations are summarized below.

The correctional facilities should have specific written procedures to provide guidance for handling their transactions. The audit noted that some of written procedures at the correctional facilities do not provide enough detail about how locally administered fund transactions are to be handled. The facilities do adhere to the general policies and procedures authorized by the Division of Accounts and Reports, the Department of Corrections and facility General Orders. So that specific guidance will be available on how locally administered fund transactions are to be handled, the facilities will be directed to develop detailed operating instructions for each of their locally administered funds.

Authorization for payments from locally administered funds should be obtained and documented. The audit noted that authorization for payments wasn't always documented. Procedures for obtaining written documentation will be incorporated into the detailed operating instructions on how locally administered fund transactions are to be handled. In addition, the facilities will revise their "dress-out" form to include a line for a signature authorizing payments. Non-Business Office staff authorized to approve dress-out payments will sign the form.

A Safer Kansas Through Effective Correctional Services

Barbara Hinton, Letter
10/11/2001
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Supporting documentation for payments should be obtained and maintained. The audit noted that supporting documentation for some payments wasn't maintained. The facilities will be directed to obtain and maintain supporting documentation so that an adequate review can be undertaken before payments from locally administered funds are made.

Bank reconciliations are to be done by, or reviewed by, someone other than the fund custodian. The audit noted that some of the bank reconciliations weren't done or reviewed by a staff member other than the fund custodian. The facilities will be directed to designate a business office staff member, other than the fund custodian, to prepare the bank reconciliations.

Bank reconciliations should be done on a timely basis. The audit noted that some of the bank reconciliations weren't always done on a timely basis. As the report indicates, staff turnover and related vacancies were the contributing factors to non-timely reconciliations. The facilities will be directed that to the extent reasonably possible, the bank reconciliations should be done on a timely basis.

Thank you, again, for the opportunity to respond to the audit findings and recommendations.

Sincerely,



Charles E. Simmons
Secretary of Corrections

CES:JB:jb